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Agenda Item 4a

June 14, 2011

TO: MEMBERS OF THE HEALTH BENEFITS COMMITTEE

- I. **SUBJECT:** Approval of 2012 Proposed Benefit Design Modifications
- II. **PROGRAM:** Health Policy and Planning
- III. **RECOMMENDATION:** Staff recommends the Health Benefits Committee (HBC) approve the proposed benefit design modifications for 2012.

IV. ANALYSIS:

Background

Consistent with a focus on affordable, high quality health care, the CalPERS Health Benefits Program encourages the use of generic medications instead of brand name medications when a Food and Drug (FDA) approved generic equivalent is available.

Additionally, to reduce variability in the cost of health care by physicians and hospitals, CalPERS began a series of value based purchasing design programs last year. These include:

- a \$30,000 benefit limit for hip and knee replacements provided by the self-funded Preferred Provider Organization plans (PPO); and,
- a \$250 copay for Blue Shield members who select an outpatient hospital instead of an ambulatory surgery center for upper and lower endoscopy, cataract surgery, and spinal injections.

Analysis

Following consultation with our health plan partners, the HBC, and program constituents, CalPERS staff recommend the following benefit design modifications to further encourage the most appropriate and cost-effective use of health care services:

Pharmacy benefit modifications

- A clarification of last year's removal of non-preferred drugs from the \$1,000 out-of-pocket maximum for mail order prescriptions to exclude life style drugs.

- A “member pays the difference” requirement when a doctor prescribes a drug as Dispense as Written, and for members who select brand name drugs when a Food and Drug Administration approved generic equivalent is available.
- An increase in the prescription drug copay of \$5 at retail for brand medications, and the standardization of 90-day mail order prescriptions to have double the copay of a 30-day retail prescription.

Medical benefit modifications

The following modifications are intended to encourage the use of appropriate and cost-effective care settings by members and dependents. These benefit modifications apply to Basic plans only and will be accomplished by establishing the following benefit limits for PPO plan members who receive the following services in an outpatient hospital setting instead of an ambulatory surgery center:

- Colonoscopy - \$1,500 limit
- Cataract Surgery - \$2,000 limit
- Arthroscopy - \$6,000 limit

Attachment 1 lists the proposed changes by program type and shows projected annual savings for Basic plans, Medicare plans, and all plans combined.

V. STRATEGIC PLAN:

This directly relates to Strategic Goal X: Develop and administer quality, sustainable health benefit programs that are responsive to and valued by enrollees and employers.

VI. RESULTS/COSTS:

The CalPERS costs associated with this item are included in the annual budget of Health Policy and Planning.

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